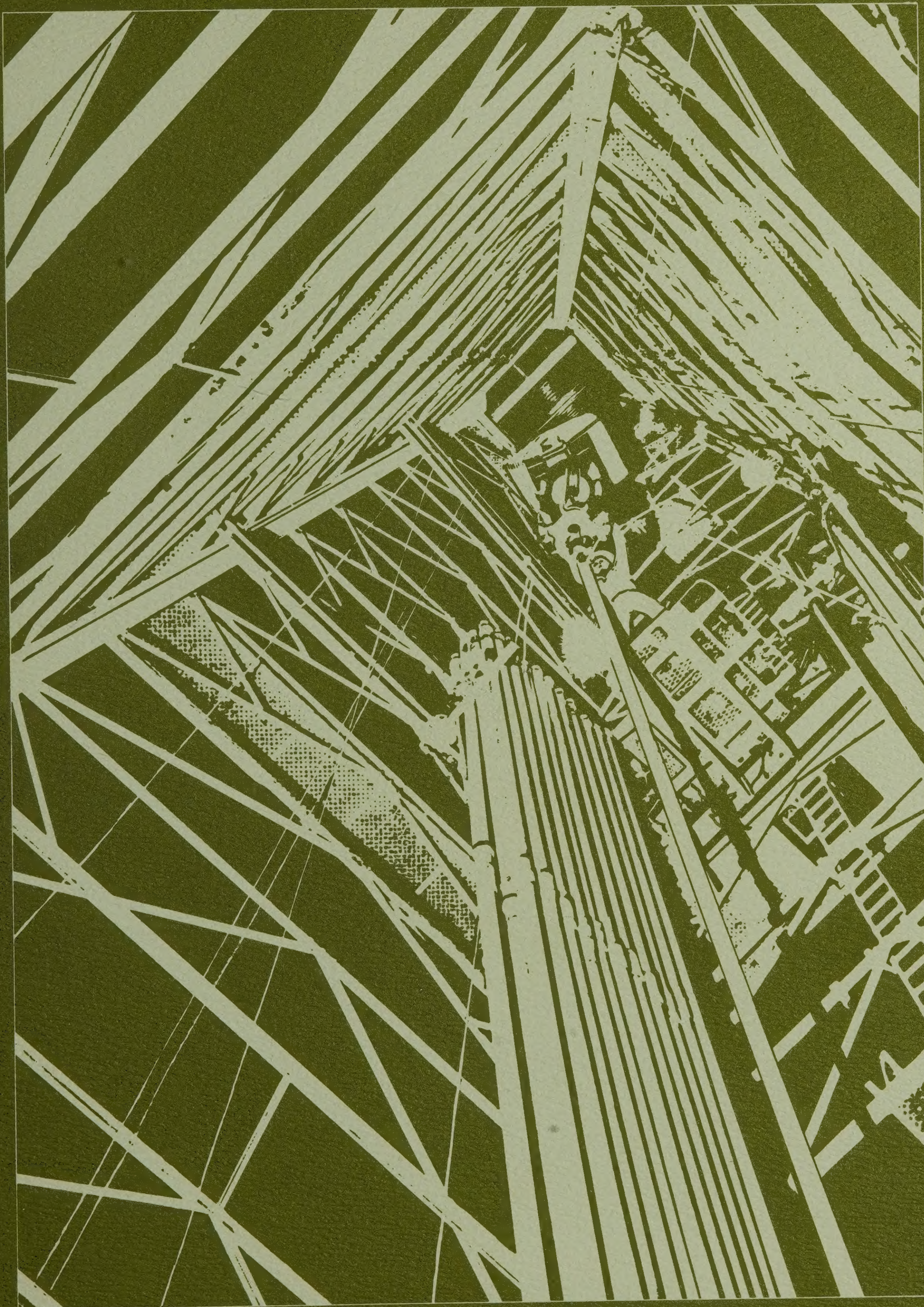


Phoenix Canada Oil Company Limited

Annual Report for the 26th Year Ended December 31, 1970

Phoenix Canada Oil Company Limited
SUITE 405 • 8 KING STREET EAST • TORONTO • CANADA

INFORMATION CIRCULAR

Solicitation of Proxies

This Information Circular accompanies the Notice of Annual Meeting of Shareholders of PHOENIX CANADA OIL COMPANY LIMITED (the "Company") and is furnished in connection with the solicitation by or on behalf of the Company Management of proxies to be voted at the said Annual Meeting for the purposes set forth in the Notice. The said proxy solicitation will be primarily by mail, with the cost borne by the Company.

Appointment and Revocation of Proxies

The persons named in the enclosed form of Instrument of Proxy are Directors of the Company. A SHAREHOLDER DESIRING TO APPOINT SOME OTHER PERSON TO REPRESENT HIM AT THE MEETING MAY DO SO EITHER BY INSERTING SUCH PERSON'S NAME IN THE BLANK SPACE PROVIDED IN THE PROXY OR BY COMPLETING ANOTHER PROPER FORM OF PROXY AND, IN EITHER CASE, DELIVERING THE COMPLETED PROXY TO THE COMPANY SECRETARY. As provided by law, a Shareholder attending the Meeting has the right to vote in person and, if he does so, the vote of his previously granted proxy is a nullity.

A Shareholder who has given a proxy may revoke it by either (a) signing a proxy bearing a later date and delivering it to the Company Secretary, or depositing it at the Company's Head Office at any time prior to the meeting, or (b) as to any matter on which a vote shall not already have been cast pursuant to the authority conferred by such proxy, by signing a written notice of revocation and delivering it to the Company Secretary or the Chairman of the Meeting.

Exercise of Discretion by Proxies

Persons named in the enclosed form of Instrument of Proxy will vote the shares in respect of which they are appointed in accordance with the direction of the Shareholders appointing them. IN THE ABSENCE OF SUCH DIRECTION, SUCH SHARES WILL BE VOTED FOR THE APPROVAL OF THE DIRECTORS' ANNUAL REPORT AND FINANCIAL STATEMENTS, FOR THE ELECTION OF DIRECTORS AND FOR THE APPOINTMENT OF AUDITORS, AS STATED UNDER THOSE HEADINGS IN THIS CIRCULAR. The enclosed proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting and with respect to other matters which may properly come before the Meeting. At the time of printing this Circular, the Company Management knows of no such amendments, variations or other matters to come before the Meeting other than the matters referred to in the Notice.

Voting Shares and Principal Holders

Only Company Shareholders of record at the time of the Annual Meeting will be entitled to vote at the Meeting. Shareholders are entitled to one vote in respect of each share held. The Company has only one class of voting shares. At June 1, 1970, the Company had outstanding 1,921,856 common shares of the par value of $1.00 each, each carrying the right to one vote per share. To the knowledge of the Company's Directors and Senior Officers, at June 1, 1970, the only persons or companies that beneficially-owned, directly or indirectly, shares carrying more than 10% of the voting rights attached to all shares of the Company are Charles S. Payson, who owns beneficially 248,059 shares, or 12.91% of the voting shares, and Talent Oil and Gas Ltd., which owns beneficially 764,207 shares, or 40.0% of the voting shares.

Election of Directors

The Company's By-Laws provide for a Board of five Directors, of whom two shall constitute a quorum. At present, the Company's Board of Directors comprises the persons named below. The persons named in

the enclosed form of Instrument of Proxy intend to vote for the election of the nominees whose names are set forth below, all of whom are now members of the Board and have been since the dates indicated, and for other qualified Shareholders properly nominated at the Annual Meeting. The Management does not contemplate that any of the nominees will be unable to serve as a Director but, if such event should occur for any reason prior to the Meeting, the persons named in the enclosed proxy reserve the right to vote for another nominee in their discretion. Each Director elected will hold office until the next Annual Meeting of Shareholders when a successor is duly elected, unless his office is earlier vacated in accordance with the By-laws.

The following table and the notes thereto state the names of all the persons proposed to be nominated for election as Directors, other Company positions and offices now held by them, their principal occupations, the year in which each became a Director of the Company, and the approximate number of shares of the Company beneficially-owned, directly or indirectly, by each of them as of June 1st, 1970.

Name, Office Held and Principal Occupation	Year Became Director	Shares Beneficially Owned
S. Donald Moore; Company President; Executive	1960	73,452
Everett E. Ott; Company Secretary-Treasurer; Chartered Accountant and Corporate Secretary	1944	2,202
Charles S. Payson; Executive and Investor	1968	248,059
Jason Gould; Financial Consultant	1968	5,100
John A. Murphy, F.C.C.S.; Corporate Secretary and Accountant	1956	101

NOTES: (a) Information as to shares beneficially-owned, not being within the knowledge of the Company, has been furnished by the respective Directors individually.

(b) Each of the above-named persons has held the principal occupations indicated for at least 5 years.

Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid or payable by the Company to the Directors and Senior Officers in respect of the fiscal year ended December 31st, 1969, was NIL. During the same period, $600 was paid to the office of Mr. Everett E. Ott, Company Secretary-Treasurer, for the provision of head office secretarial and accounting services.

Appointment of Auditors

The persons named in the enclosed form of Instrument of Proxy intend to vote for the re-appointment of Cecil B. Bell, Chartered Accountant, Toronto, Canada, as Auditor of the Company, to hold office until the next Annual Meeting of Shareholders. Cecil B. Bell has been Auditor of the Company since on or about the year 1946.

General

All Resolutions to be submitted to the Meeting must be passed by at least a majority of votes cast at the Meeting. The Management knows of no matters to come before the Meeting other than those set forth in the Notice of Meeting. However, if any other matters which are not now known to Management should properly come before the Meeting, the accompanying form of Instrument of Proxy will be voted on such matters in accordance with the best judgment of the person or persons voting the proxy.

DATED at Toronto, Canada, the 11th day of June, 1970.

AR27

Phoenix Canada Oil Company Limited

HEAD OFFICE

SUITE 405 • 8 KING STREET EAST • TORONTO • CANADA

Interim Shareholder Report

For the Period Ending 30 June 1971

During the period under review, a dramatic change in private capital's role in the international oil industry materialized. Control of crude oil pricing passed from competitive free enterprise to the O.P.E.C. cartel controlling 90% of world oil exports. A few largely have-not nations, for the first time successfully acting in concert, now control the spigot fueling world industry.

Press and trade journal headlines now regularly report declines in North American oil and gas reserves and still sharper reductions in reserves-to-production ratios. Natural gas pipeline utilities discourage new customers. Widespread service interruptions are now routine during even normally cold winters.

With rising hydrocarbon price levels assured for the foreseeable future, exploration for reserves outside of O.P.E.C. control is expanding rapidly. Incredibly remote and costly Arctic and offshore wildcatting is encouraged — resulting in built-in high-cost factors reflected in the value of developed reserves, particularly after capital investment requirements for multi-billion dollar pipelines and for gas liquefication plants and complex refrigerated tankers. PHOENIX will derive direct benefits from rising crude oil price levels when Ecuador royalty oil returns commence in 1972.

Canadian Arctic Islands

PHOENIX holds working and royalty interests in 2,898,454 acres, geographically diversified and largely onshore, screened from original 1960-61 interests in 5½-million acres after detailed geological and geophysical surveys. Arctic exploration budgets are rising rapidly, fueled by sharper interest by major companies — Imperial, Gulf, California Standard, Sun, British Pete and German and French Government-controlled consortia, plus recent large financial commitments by U.S. natural gas pipeline and utility companies.

The consortium of Tenneco, Columbia Gas, Texas Eastern Transmission and Northern Natural Gas have committed $75-million to Panarctic for exploration, repayable only out of gas production proceeds — Northern Natural Gas has committed $15-million to Magnorth's largely offshore acreage — Pacific Lighting of California has undertaken at least $10-million in working interest costs for the Prairie Oil-Hirschhorn group. In most cases, the primary consideration is a first call on discovered gas reserves; only a nominal interest, if any, is earned in the lands involved.

By the year-end, at least 8 Arctic Island rigs will be operating — including the current Ellesmere-Fosheim wildcat in which PHOENIX holds a direct interest — the current British Pete Hotspur test about 30 miles west of our Bathurst blocks; the suspended Sun Skybattle Bay well 80 miles northwest of Bathurst; the King Christian gas development 80 miles north of Bathurst; Imperial Oil's first wildcat slated for the Grinnell Peninsula of Devon Island where PHOENIX interests comprise nearly 300,000 acres; with further wells slated for Graham, Prince Patrick and Banks Islands.

Eastern Ecuador Developments

As the Trans-Ecuadorian Pipeline nears its scheduled 1972 completion, a new discovery, Pacuna #1, was reported by Texaco-Gulf on the PHOENIX 1,650,000-acre royalty contract area (see map overleaf). The foremost trade journal reports conservative estimates that credit Texaco-Gulf with at least 5-billion bbls. of reserves on its Eastern Ecuador concessions — a substantial percentage underlies our royalty contract acreage. Initial pipeline throughout is scheduled from 110 wells; 25 at Lago Agrio, 40 at Sacha, 25 at Shushufindi and 20 at Auca (all fields, except Lago Agrio, are on PHOENIX royalty acreage).

PHOENIX has settled legal actions that resulted in complete severance and independent control of our Ecuador assets, formerly held jointly with Norsul Oil & Mining Ltd. — our interests comprise a direct 1% gross production royalty in the 1,650,000-acre Texaco-Gulf royalty contract area and carried net profits interests in 2,060,000 acres operated by the World Ventures Group; 7½% in about 1,100,000 acres and 2½% in the remainder. A 50% interest is also held in certain production payments to derive from the World Ventures acreage.

An important new development is the recent Tiguino #1 discovery, immediately south of our royalty contract area (see map overleaf), operated by Union, Superior, California Standard and Anglo-Ecuadorian. First testing reported over 1,300 bbls/day of 32-gravity, low sulphur crude, through a ¼″ choke, from about 11,000 ft. — on a par with the larger Texaco-Gulf finds. Oil discovery prospects are enhanced for the 30-mile stretch between Tiguino and Auca, the southernmost Texaco-Gulf field. Based on the regional north-south strike, Tiguino reserves may extend into our royalty acreage. Even more significant is the now prospective second pipeline, already under study for cost and feasibility, which can also service the World Ventures field developments. Capacity Trans-Ecuadorian operation is expected on only the Texaco-Gulf reserves — 250,000 bbls/day initially — and 400,000-500,000 bbls/day ultimately, with additional pumping stations.

Paraguay Exploration Project

Geological and geophysical exploration programs completed during 1970-71 and our 2,850,000-acre oil and gas contract area in Southwestern Paraguay, on the Argentine border, are now being correlated. Evaluations preparatory to decisions on seismic surveys, and prior to wildcat drilling, are underway. Exploratory wildcat drilling to continue well into 1972, comprising about 15 wells, was started in May by Pennzoil-Schlumberger on their large concession block immediately to our north.

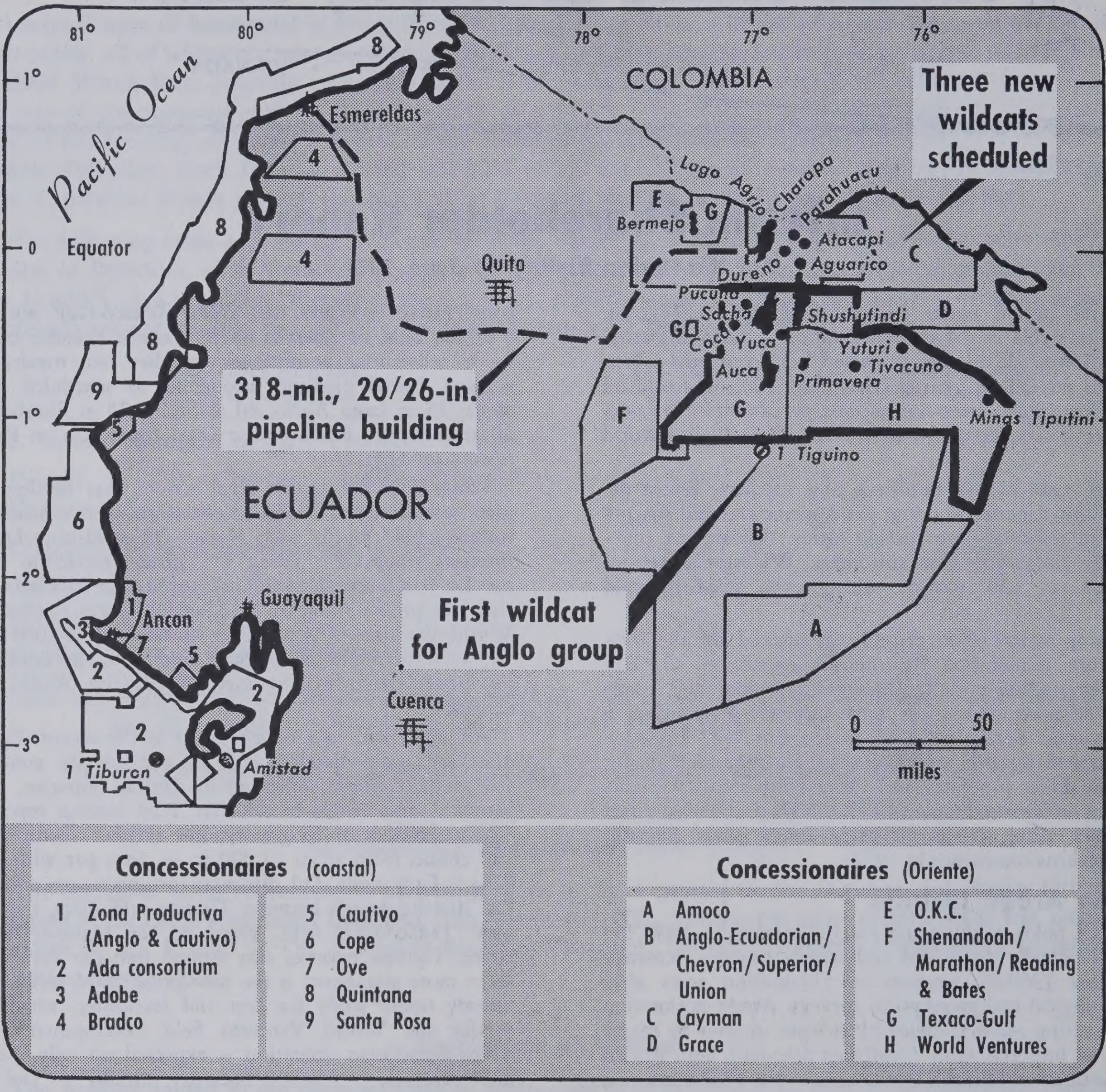
Bolivia Interests

At press time, constructive political developments were reported from Bolivia. PHOENIX has already been contacted concerning immediate work on revived resource development projects previously deferred due to unsettled political conditions. Bolivia is a large, sparsely-populated country with extensive, diverse natural resources in widespread demand in an expanding world economy. The new Administration, considered to be dynamic, progressive and knowledgeable, is in a position to provide the long-term security essential for sound resource development projects. The potential — and the stakes — for PHOENIX are interesting.

On Behalf of the Board:
by: S. DONALD MOORE, *President*

17 September 1971

Where the search is spreading in Ecuador



Reprinted from OIL & GAS JOURNAL; July 12, 1971

PHOENIX interests within specially darkened borders; G and H Blocks

Phoenix Canada Oil Company Limited

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Period ended June 30, 1971

(With Comparative Figures for the Period ended June 30, 1970)

(Prepared from the Books of Account without Audit)

	June 30 1971	June 30 1970
Source of Funds		
Interest and Dividends	$ 1,858.18	$ 3,344.65
	$ 1,858.18	$ 3,344.65
Application of Funds		
Exploration, Development and Administration Expenses	$12,219.39	$ 6,509.57
Advances to Associated Companies	8,080.69	—
	$20,300.08	$ 6,509.57
(Decrease) Increase in Working Capital	($18,441.90)	($ 3,164.92)
Working Capital at Beginning of period	85,789.67	100,416.16
Working Capital at end of year	$67,347.77	$ 97,251.24
Represented by:		
Current Assets	$69,187.10	$ 98,500.24
Current Liabilities	1,839.33	1,249.00
	$67,347.77	$ 97,251.24

Jan. 21, 1971

Phoenix Canada Oil Company Limited

AR27

HEAD OFFICE

SUITE 405 • 8 KING STREET EAST • TORONTO • CANADA

Interim Shareholder Report

The world-wide energy crisis of 1970 was a rude awakening. Supplies of hydrocarbon fuels and electric power were reappraised in the wake of unusually violent political convulsions in the Middle East. Responsible statesmen were forcefully reminded of the daily peril to national security in dependence on Middle East oil reserves — and the inevitable economic crunch to come through Arab-dictated oil prices.

As the dominant oil theme of the 1960's was the world's crude supply glut — that of the 1970's will surely be one of capricious scarcity and arbitrary pricing.

Over the past decade, free world oil consumption grew at the average annual rate of 7.5% — an average yearly gain of 1.8-million bbls/day. The continued shift from coal to oil because of air pollution concerns, the slow-down in nuclear power because of uncertain environmental and safety aspects and the current U.S. natural gas supply crisis has now raised the average annual increase to over 8% — for an average annual incremental demand increase, from a much higher base, to 3-million bbls/day. The free world, now consuming 14-billion bbls/annually, needs a new Alaska North Slope every year or two.

It is increasingly evident that the 1970's must witness intense development of new crude oil reserves to reverse an overwhelming dependence on the Middle East. PHOENIX now holds several major oil prospects in diverse regions under active exploration and development. Because of a modest share capitalization, commercial success on any primary Company holding must have a profound effect on Shareholder equity.

Canadian Arctic Islands

Wildcat drilling is rapidly zeroing in on PHOENIX working and royalty interests held in 2,344,844 acres — largely onshore, and screened from original holdings of 5½-million acres after detailed 1960-62 surveys by J. C. Sproule & Associates Ltd., renowned Arctic consultants. Acreage was retained only on prominent, prospective structures, all surveyed and mapped, rather than on vast and meaningless expanses of Arctic Ocean depths. All less prospective areas, off structure or over water, were relinquished to reduce carrying charges and rentals.

The Sun Oil-Panarctic Allison River wildcat on South-Central Bathurst, projected for 10,000 ft. and last reported drilling below 5,400 ft., is located between, and only a few miles from, both our Northwest Bathurst and North Cornwallis holdings (see map overleaf). The underlying Sun Oil-Panarctic farmout agreement calls for 24,000 ft. of wildcat drilling on Bathurst, or at least two more wells.

B.P. Oil & Gas Ltd. has just awarded the drilling contract for their Vanier Island wildcat, the B.P. Hotspur #1, directly adjoining our Northwest Bathurst acreage to the west. The rig move will commence in February; a late March spud-in date is likely.

Deminex Canada Ltd., a West German Government-sponsored consortium of major oil and chemical firms, has just concluded a Panarctic farmout that calls for at least one wildcat on the PHOENIX Cornwallis Island acreage. The spectacular gas blow-out on King Christian Island is located about 75 miles due north of our Northwest Bathurst acreage. On Graham Island, about 75 miles northeast of our Devon Island block, Pacific Petroleums has completed seismic work and scheduled a 1971 wildcat.

Eastern Ecuador Developments

During December 1970, Texaco and Gulf completed two more rank wildcat oil discoveries on the PHOENIX royalty acreage — the Yucca #1, located about a mile west of the northwest corner of the World Ventures Group carried interest acreage and about 8 miles north-northeast of the Auca Field — and the Coca #1, about 19 miles west of the World Ventures block, near the Napo River. There are now 5 new field discoveries on our royalty acreage — Sacha, Shushufindi, Auca, Yucca and Coca.

In early January, the World Ventures Group spudded the Primavera #1 wildcat, about 2½ miles east of the Yucca discovery, and apparently on the same productive structure. The Group are clearing several additional wildcat drilling sites; at least two more wells are scheduled in their current program.

Unofficial reports indicate that Texaco-Gulf's 318-mile, $150-million, Trans-Ecuadorian Pipe Line to the Pacific port of Esmeraldas is ahead of schedule. Ultimate capacity is variously reported from 250,000 to 500,000 bbls/day. At the end of November, Texaco announced that mainline pipe welding had begun and site preparation for the tank farm and marine terminal was underway.

Paraguay Oil Exploration

Scheduled for January completion is the PHOENIX aerial magnetometer survey of our 2,850,000-acre oil and gas exploration contract area in the Southwestern Chaco region of Paraguay, on the Argentina border. Seismic exploration is planned after the current rainy season, late April or early May.

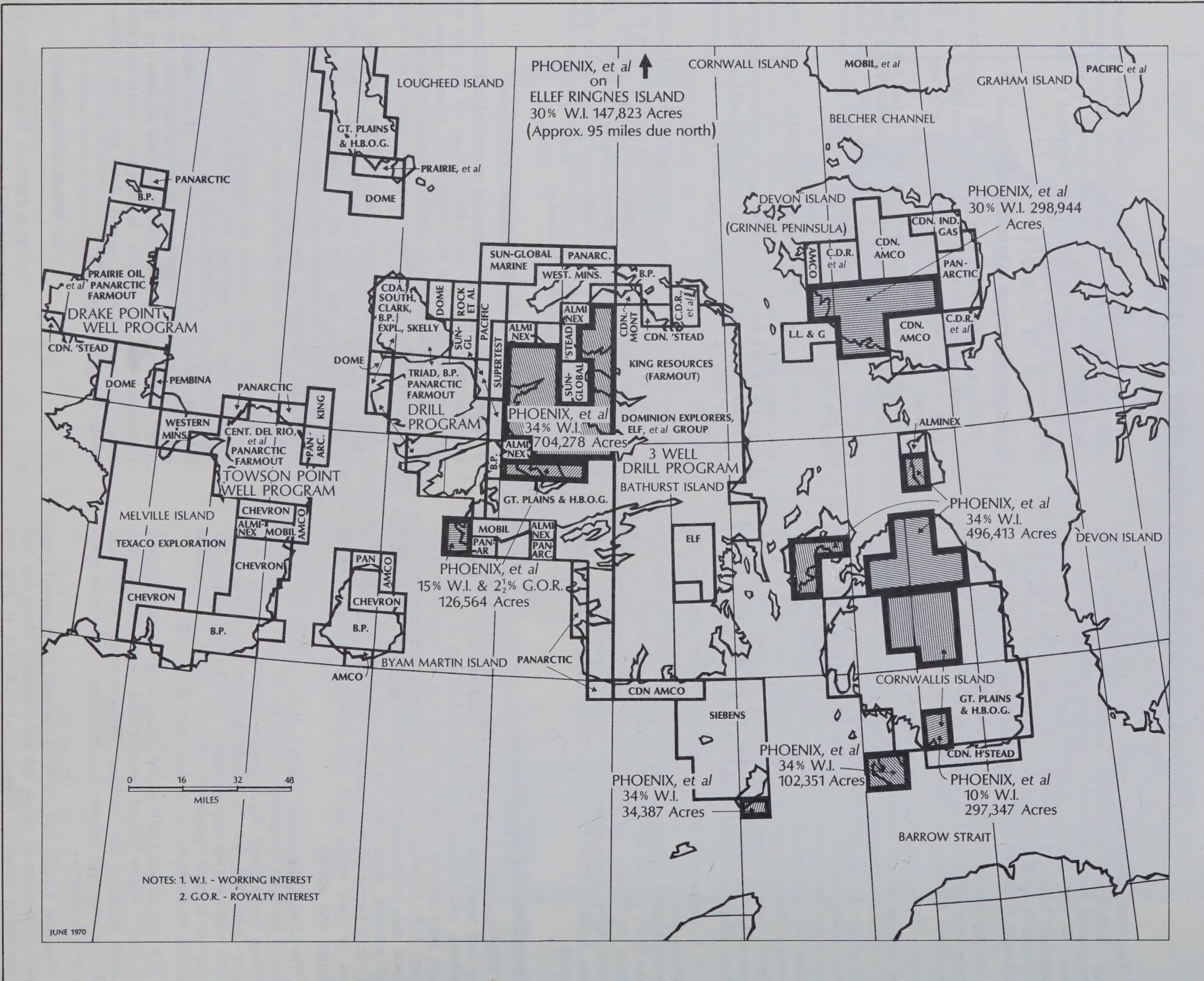
The Pennzoil-Schlumberger team, holding adjoining exploration acreage, have called for drilling bids. Their wildcat drilling program, the first of a 10-well commitment, is secured by their $1-million performance bond deposit. Of considerable interest is the indicated commencement date, before mid-1971, somewhat earlier than expected.

PHOENIX will attempt to negotiate with Y.P.F., the Argentine state oil company, for an exchange of exploration data covering our respective holdings on both sides of the Pilcomayo River international frontier. If successful, we expect to considerably expedite wildcat drilling plans for the PHOENIX holdings, considered a possible extension of the Cretaceous basin in which Argentina's recently-discovered major Caimancito Field is located, about 160 miles southwest of our Paraguay acreage.

On Behalf of the Board:

by. S. Donald Moore, *President*

21 January 1971



PHOENIX CANADA OIL COMPANY LIMITED

Arctic Islands Location Map

Cornwallis

Bathurst

Devon Islands

Phoenix Canada Oil Company Limited

Incorporated in Ontario, Canada, 25 November 1944

Directors	S. DONALD MOORE CHARLES S. PAYSON JASON GOULD JOHN A. MURPHY	Toronto, Canada New York, New York Irvington-on-Hudson, New York Scarborough, Canada
Officers	S. DONALD MOORE JOHN A. MURPHY	President Secretary-Treasurer
Operating Offices and Subsidiary Interests	EXECUTIVE OFFICE	8 King Street, East Toronto, Canada
	WESTERN CANADA	513-8th Avenue, S.W. Calgary, Canada
	PETROLERA GENERAL S.A.	Calle Mejico 513 Asuncion, Paraguay
	MINAS y PETROLEOS del ECUADOR, S.A. and PETROLERA YASUNI S.A.	Amazonas 648 Quito, Ecuador
Banking	THE ROYAL BANK OF CANADA MAIN BRANCH	Toronto, Canada
	and MAIN BRANCH	Calgary, Canada
Stock Exchange Listing	CANADIAN STOCK EXCHANGE	
Transfer Agents	GUARANTY TRUST COMPANY OF CANADA	88 University Avenue Toronto, Canada
Auditor	CECIL B. BELL, C.A.	Toronto, Canada
Capitalization	AUTHORIZED	5,000,000 Shares ($1.00 par value)
	ISSUED	1,921,856 Shares

THE DIRECTORS' ANNUAL REPORT

To The Shareholders

The world-wide energy crisis of 1970 was a rude, unforeseen awakening. After years of predictions that crude oil would be in surplus for at least a decade, scare headlines proclaimed grave oil and gas shortages, with sharply rising prices, for the foreseeable future. Politically dependable North American hydrocarbon fuel reserves were suddenly discovered to be decidedly finite, rather than unlimited – both U.S. and Canadian oil and natural gas reserves declined in 1970 in the face of sharply rising consumption patterns. If the dominant oil theme of the 1960's was the world's supply glut – that of the 1970's will dwell on the sobering facts of declining "safe" reserves, capricious scarcities and arbitrary price increases.

During 1970, oil importing nations were forcefully reminded of the daily peril to national security through dependence on Middle East oil reserves – and the potential for an increasingly serious economic crunch deriving from Arab-dictated oil prices. Environmental concerns continued to stall plans for substantial expansion of electric power sources. Coal and nuclear fuel proponents clashed with anti-pollution forces. The only alternatives, sulphur-free fuel oils and natural gas, are in short supply and prices are rising sharply. New customers are being discouraged. Power "brown-outs" during peak summer and winter demand periods are now a fact of urban life.

The 1970's must witness an intense, costly effort to develop new oil and gas reserves to reverse the present overwhelming dependence on North Africa and the Middle East (68% of world reserves, plus 12% in Communist areas). Obviously, Canada's unexplored potential oil basins will get more than their share of the exploration dollar. Economic Arctic Islands discoveries, both oil and gas, will see immediate development and marketing. Eastern Canada's 1970 oil import bill was over \$600-million; crude and product imports are now running over 700,000 bbls/day; 1971 is expected to average 784,000 bopd.

The U.S. supply-demand crisis is even more auspicious for Canada – through 1990, less than 20 years, the U.S. will consume 150-billion bbls. of oil – against present reserves, including Alaska, of about 50-billion bbls. By 1980, oil prices are projected at \$4.50/bbl., with natural gas prices doubled. Alternate sources, tar sands and oil shales, remain unpromising since foreseeable costs are twice those of conventional crude. Natural gas prices now average 35¢ at city gates; imported liquified gas contracts provide for landed prices approaching \$1.00 by 1974. Additions to U.S. natural gas reserves during the 1960's averaged 17.3-trillion cu.ft./year. Current production is 21-trillion cu.ft./year, rising to at least 25-trillion cu.ft./year by 1975. Even the dubious assumption that gas discoveries will continue at the current rate forecasts exhaustion of all reserves by 1980.

The foregoing stresses the inevitability and immediacy of markets for Arctic Islands oil and gas upon discovery. PHOENIX holds strategic land-based interests throughout the more accessible areas which will remain under active exploration for years to come. Obviously, rising oil prices and critical natural gas shortages considerably expand the parameters defining commercial discoveries in this region. Your Management appreciates Shareholder patience for the years required to bring our primary interests to their present promising status – the Canadian Arctic (since 1960), the successful Eastern Ecuador participation (since 1963) and the increasingly important Paraguay operation (since 1968). Based on our relatively modest capitalization, Shareholder equity is substantially affected by favourable developments in any area.

Canadian Arctic Islands

At press time, two wildcats are drilling ahead on PHOENIX working interest lands on Cornwallis and Ellesmere Islands – we hold 10% (5% after well completion) in 229,831 acres comprising the Cornwallis Central Dome test operated by Deminex (West German consortium) and Panarctic – and a 1.25% minimum interest (but up to 5%, subject to legal determinations) in the closely-watched Ellesmere Fosheim wildcat. Four further strategic wildcats are also drilling ahead – Sun Young Inlet, about 15 miles east of our Bathurst block; B.P. Hotspur, about 30 miles west of our Bathurst lands; Sun Skybattle Bay, 80 miles northwest of Bathurst; and the Panarctic King Christian gas discovery stepout, 80 miles north of Bathurst. Discovery news critical to PHOENIX is possible at any moment for several months.

Panarctic's King Christian gas discovery reported an absolute open flow of 264-million cu.ft./day of dry, sweet gas from 1918 ft. Despite the incredibly remote location, marketing studies are well underway, with many customers lined up. Economics dictate a 48" pipeline at least 2800 miles long. Panarctic officials plan well deliverabilities in excess of 50-million cu.ft./day. Overall Panarctic expenditures aggregate $40-million to date, budgeted for $70-million through 1972.

At the 1971 year-end, 8 Arctic Island rigs will be operating. Major companies, largely sidelined to date, are now contracting costly drilling commitments to obtain land positions. Imperial and Panarctic have completed negotiations on a $20-million drilling deal, including a Grinnell Peninsula (Devon Island) wildcat where PHOENIX holds interests on nearly 300,000 acres. Gulf Oil has announced similar negotiations. Atlantic Richfield has purchased acreage interests. Practically all major operators are actively investigating Arctic Island participations.

PHOENIX now holds working and royalty interests on 2,898,454 acres (including 553,610 acres in the Fosheim, Depot Point and Black Top Structures on Ellesmere Island). We have just received notice from Panarctic that they have earned their farmout interests in 1,920,933 acres, pending work credit filings to maintain this acreage in good standing, at no cost to PHOENIX, to June 1, 1973. The PHOENIX interests are largely onshore acreage, screened from original holdings of 5½-million acres after $300,000 in geological and geophysical survey costs in 1960-1962 by J.C. Sproule & Associates Ltd.

The Sproule Reports stressed that the region is not an ice covered waste, but one of low relief with slight precipitation – a frozen desert with little or no overburden, sparse vegetation, minimal animal life and no inhabitants whatever. These terrain conditions have favoured the relatively easy assessment of the known abundance of porous reservoir and source rocks and has expedited rapid mapping of numerous promising geological structures. The following summary of the more prominent, prospective structures located and mapped on the PHOENIX acreage is excerpted from the Sproule Reports:

A. *Northwest Bathurst Island*

1. Stokes Range Anticline: 11 miles long, 6 miles wide; at least 1,000 ft. of closure and over 20,000 ft. of sedimentary section indicated.
2. Northwest Purcell Bay Anticline: 47½ miles long, 1½ miles wide; over 4,500 ft. of closure and about 8,500 ft. of sedimentary section indicated.
3. Combined Chubb Point and Alexander Anticline: 24 miles long, 3 miles wide; about 4,500 ft. of closure and 11,000 ft. of sedimentary section indicated.
4. Pell Inlet Anticline: 9 miles long, 1½ miles wide; about 2,500 ft. of closure and 10,500 ft. of sedimentary section indicated.
5. Ten major anticlinal structures were mapped; the foregoing were deemed the more important "priority" structures. Also reported were "myriad minor structures which might elsewhere appear to be of considerable interest" and which are available for later development.

B. *North and Little Cornwallis Islands*

1. Cape Gell Anticline: 22 miles long, 12 miles wide; about 4,500 ft. of sedimentary section indicated.
2. Centre Anticline: 18 miles long (on Company acreage), 10 miles wide; about 5,000 ft. of sedimentary section indicated.
3. Baillie Hamilton Island Anticline: 15 miles long, 7½ miles wide; about 9,000 ft. of sedimentary section indicated.
4. Several other structural features, both anticlines and fault, were located and are considered prospective because of indicated hydrocarbon trapping; included are the Lady Hamilton and Templeton Bay Anticlines and the Eleanor River, Riddle Point and Rookery Creek Faults.

C. *Devon Island (Grinnell Peninsula)*

1. Inglis Anticline: 20 miles long, over 20 miles wide; about 7,000 ft. of sedimentary section indicated.
2. Barrow Harbour High: 10 miles long, 4 miles wide; 3,500 ft. of sedimentary section indicated.

D. *Lowther Island*

Located at the boundary of three major geological

units; the Arctic Lowlands, Parry Island Fold Belt and Boothia Arch, the Island contains extensive fault trends tending to create prospective structures.

E. *Griffith Island*

Located 10 miles southwest of Resolute Bay, Cornwallis Island, the South Griffith Anticline is 4 miles long, 2 miles wide; about 5,000 ft. of sedimentary section indicated.

Years before the Alaskan discoveries, the late Dr. J. C. Sproule judged that the rewards in Arctic oil merited the risk: "The Canadian Arctic Islands afford independent oil companies the best opportunity in the world to develop into major companies. Never before has an independent had the opportunity to become a major oil company at such low cost." Dr. Sproule forecast that Arctic reserves would be "much easier to develop than in Western Canada, mainly because of the ease with which very large and prospective structures can be identified and delineated, due to the abundance of rock outcrop" and suggested that the Arctic Islands encompass "the largest single known undeveloped oil basin in the Western Hemisphere."

Eastern Ecuador Developments

Texaco-Gulf maintained their unprecedented wildcat success ratio – the 13th commercial discovery in 16 wildcats was announced in May. One or more of the dry holes reported non-commercial oil on test. On the World Ventures Group carried interest lands, 4 of 5 wildcats tested oil; Tiputini @ 222 bbls/day; Yuturi @ 636 bbls/day; Tivacuno @ 3,002 bbls/day; Primavera recovered 9,400 ft. of 27 gravity oil and no water. The team of Union, Superior, Standard Oil of California and Anglo-Ecuadorian are now drilling a rank wildcat 25 miles south of the Auca Field, immediately south of our royalty block. Success here will considerably expand the basin's production potential.

Industry confidence in long term Ecuadorian oil prospects is demonstrated by the 1971 exploration budgets of 21 operating companies – aggregating $120-million. Texaco-Gulf reports 1970 expenditures of $53-million. First production returns are imminent – as Texaco-Gulf's 318-mile, $150-million pipeline nears completion. Gulf's Board Chairman, speaking to a financial conference in April, reported that "pipeline construction is on schedule and should be completed in early 1972." Initial throughput of 250,000 bbls/day may shortly be expanded to ultimate capacity of 400,000-500,000 bbls/day, with additional pumping stations. The Ecuadorian Government has reported the likelihood of 1,000,000 bbls/day oil exports from Eastern Ecuador by 1976.

At press time, a settlement of our legal action to secure severance, distribution and independent control of PHOENIX interests in the Ecuador assets held jointly with Norsul Oil & Mining Ltd. was imminent. The joint PHOENIX-Norsul holdings comprise a 2% gross royalty on the 1,650,000-acre Texaco-Gulf contract area and carried net profits interests in 2,060,000-acres operated by the World Ventures Group; 15% carried interest in about 1,100,000 acres (the site of all World Ventures Group wildcat drilling) and 5% carried interest in the remainder.

No reservoir statistics nor crude oil characteristics have been officially released. However, pay thicknesses are rumoured to be in the range of 300 ft. and porosities in the order of 20-25%. The crude oil is generally high grade with very low sulphur content. Texaco recently announced that first pipeline throughput is scheduled from 110 wells; 25 at Lago Agrio, 40 at Sacha, 25 at Shushufindi and 20 at Auca. A majority of initial pipeline runs will derive from fields on our royalty acreage.

Paraguay Exploration Project

PHOENIX holds, through its Petrolera General S.A. operating subsidiary, a 2,850,000-acre oil and gas concession in the southwestern Chaco of Paraguay, on the Argentina border, awarded by Decree Law No. 8025 dated 10 October 1969. Detailed sub-surface geological and photogeological studies are complete. Surface gravity meter and aerial magnetometer programs were carried out in 1970-71. Seismic surveys are now planned, preparatory to drilling.

Our holdings adjoin a large block now being drilled by Pennzoil United Inc. of Houston and Pierre Schlumber-

ger, personally, operating through Victory Oil Company. The Pennzoil concession conditions provide for a 10-well drilling commitment, secured by a $1,000,000 performance bond. It is understood that Pennzoil's survey and seismic costs to date aggregate $1,750,000 and purchased equipment and overhead a further $750,000. Pennzoil's wildcat program commenced in May and, at press time, their second well was drilling.

The PHOENIX-Petrolera holdings are about 160 miles northeast of late 1969's major Cretaceous oil discovery at Caimancito, northern Argentina, which tested 3,352 bbls/day of high gravity (42°), low sulphur crude oil and gas at 5.6-million cu.ft./day from 12,527 ft. The confirmation well tested 5,390 bbls/day, with excellent porosity and permeability. Caimancito Field wells are averaging 3,150 bbls/day each, with total production of 52,000 bbls/day planned for 1973. Caimancito is the first major Cretaceous success in northern Argentina's Salta Basin, opening a new oil province 130 miles from the nearest previous Cretaceous production. Our holdings are thus located between the Pennzoil drilling and the Caimancito discovery area, with the Salta Basin postulated as extending into our Paraguayan Chaco sector.

An interesting analogy has been made between the Northern Argentina's Cretaceous play and Eastern Ecuador's major oil discovery area. Both plays started with Cretaceous discoveries in the eastern Andean foothills, within the mountain front – in Colombia, at Orito and in Argentina, at Caimancito. Crude oil characteristics are similar – medium light gravity, very low sulphur content and excellent initial test potentials. Wildcat drilling extending easterly into Eastern Ecuador was outstandingly successful; exploration extending easterly into Argentina's Salta Basin, towards Paraguay, may meet comparable encouragement.

Markets are promising for both oil and gas discoveries in the Chaco. Northern Argentina, within 70 miles, over easy terrain, from our concession border, is served by both an existing oil line (12") and gas line (22" & 24") to Buenos Aires, neither presently operating at capacity. Argentina is now contracting for foreign gas imports. Proceeding due easterly is the immense Brazilian industrial heartland of Sao Paulo State, with huge gas markets. Brazil's oil imports are now about 400,000 bbls/day and its domestic production is declining.

Bolivia Interests

Bolivia operations remain dormant because of an unsettled political situation. Our original Bolivian interests derived from successful tenders submitted in 1966 in response to an international invitation for proposals to develop one of the world's largest iron ore-manganese deposits in eastern Bolivia. Development economics affecting these long-known reserves were improved by major gas discoveries in central Bolivia. Direct gas reduction and beneficiation of both the iron ore and manganese considerably lowers transportation costs and results in a higher unit value product. A PHOENIX subsidiary, The Bolivia Gas Transmission Co., completed complex legal registration requirements and preliminary engineering studies covering the gas pipeline route to this project, considering the complex as the key intermediate customer of a pipeline system designed to ultimately serve the industrial markets of Sao Paulo-Rio de Janeiro.

In January 1968 we contracted with private Bolivian mining interests to finance the historic Machacamarca silver mine, then being rehabilitated for moderate silver and tin concentrate production. The mine's old tailing piles contain important silver reserves which require only concentration, without mining costs, for production. Financing was arranged through a Bolivian Government agency, operating with Interamerican Development Bank funds. The initial approved loan totalled US$200,000, with undertakings for increases to US$2,000,000 as new ore reserves warranted. Bolivia's unsettled politics has deferred loan disbursements.

Manitoba Gold Prospect

PHOENIX maintains its Snow Lake, Manitoba gold prospect of 18 patented Mining Leases in good standing. This property, held since 1944, adjoins the former Nor-Acme Gold Mine, operated by Howe Sound from 1949 to 1958. Howe Sound also optioned our property for several years. Speculative interest deriving from fluctuating free market gold prices has resulted in regular examination option enquiries.

Exemption — U.S. Interest Equalization Tax

Present and prospective United States Shareholders are advised that all outstanding PHOENIX common shares remain exempt from the provisions of the Interest Equalization Tax, as imposed by Section 4911 of the Internal Revenue Code (U.S. Public Law 88-563), pursuant to a U.S. Treasury Department ruling dated 30 December 1964.

Financial Notes

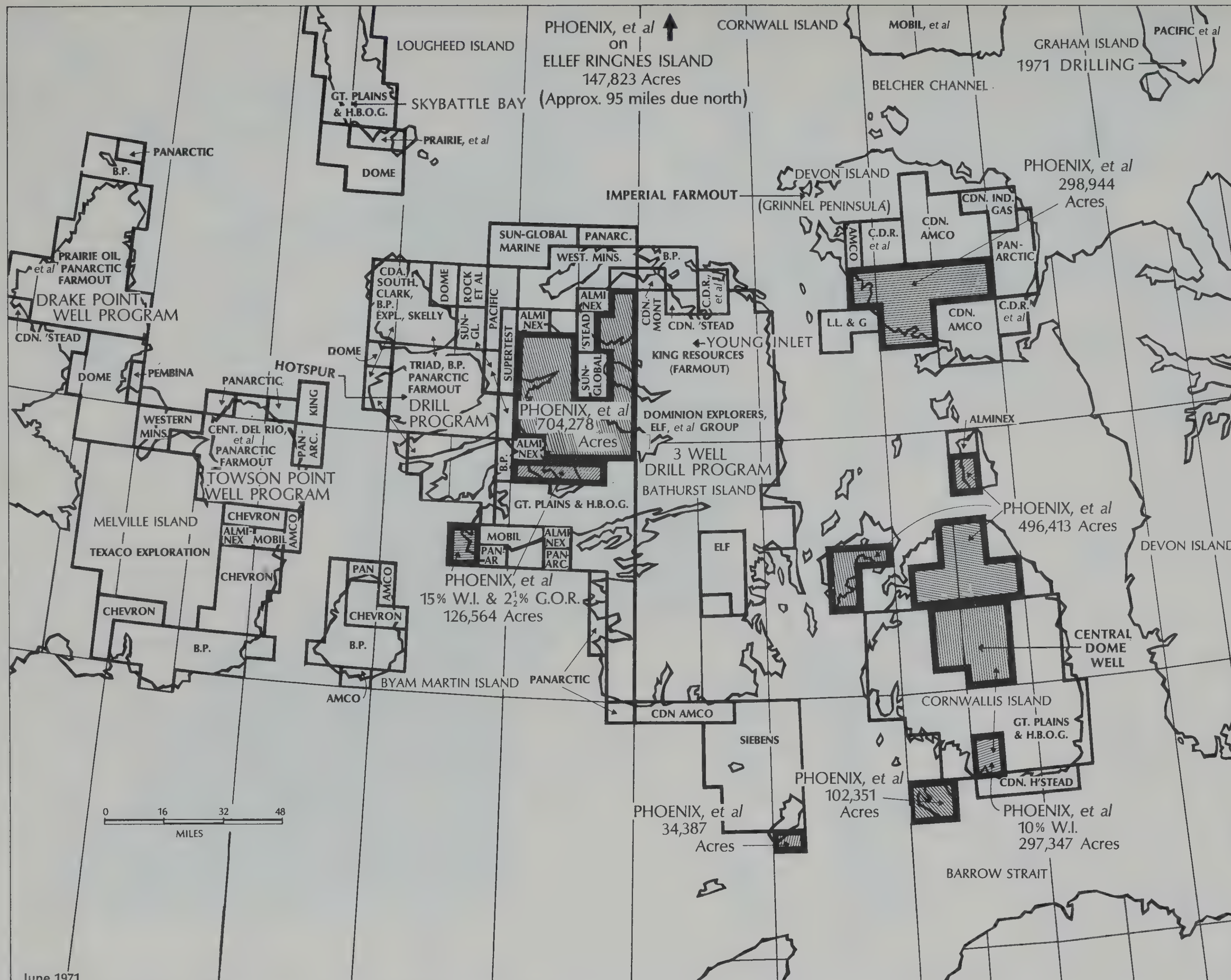
Inflationary trends always result in expanded investor interest in the appreciating value of natural resource reserves. Eventually, the value of developed oil and gas reserves reflects the fact that higher price levels, largely due to rising labor costs, inevitably increase natural resource values. Investment funds now seek industries where the labour content of production is minimal. Oil and gas prices and reserve values will also rise with producer nation demands for an ever-increasing oil income, irrespective of market conditions, as will the current trend to higher cost production from offshore and Arctic fields.

Our interests in oil-prospective regions – Canadian Arctic Islands, Ecuador and Paraguay – are all under active exploration at no present cost to PHOENIX.

Management policy remains one of limiting common share capital dilution. Our current working capital position supports this policy. Our sole capitalization remains 1,921,856 common shares, without senior equity or funded debt—unchanged during the past year.

23 June 1971 Submitted on Behalf of the Board:

S. DONALD MOORE, *President*



PHOENIX CANADA OIL COMPANY LIMITED

Arctic Islands Location Map

Cornwallis

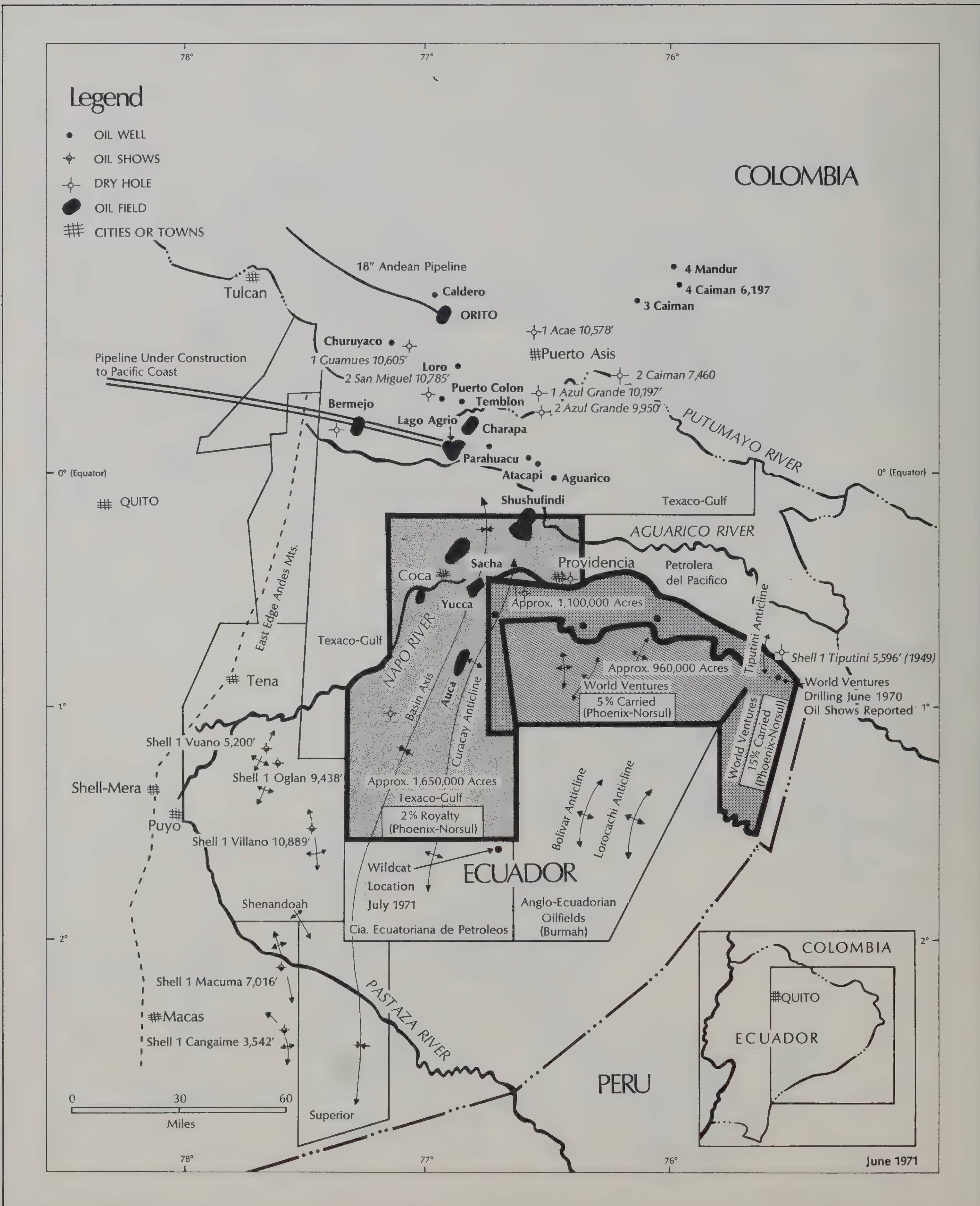
Bathurst

Devon Islands

PHOENIX CANADA OIL COMPANY LIMITED

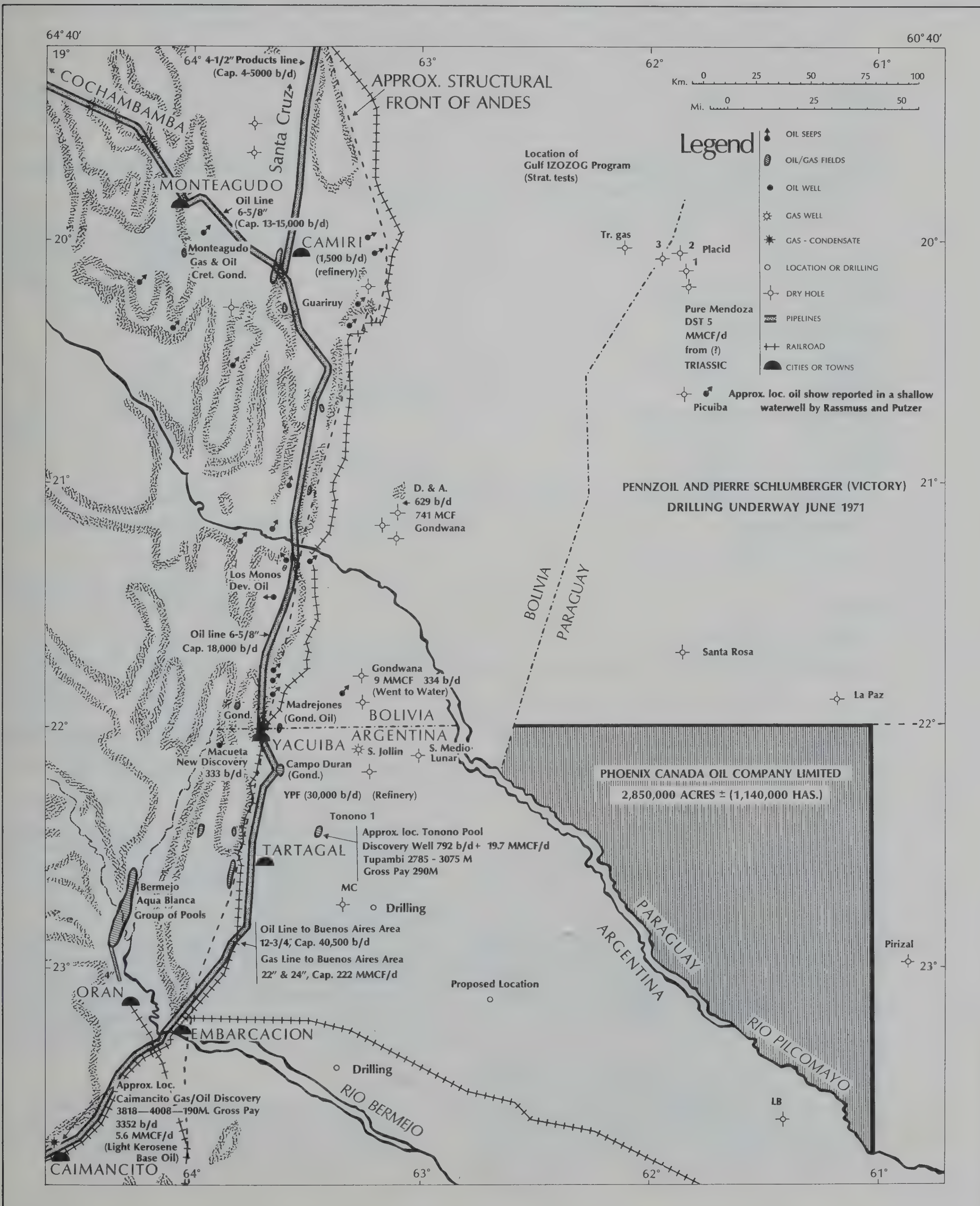
Eastern Ecuador and Southern Colombia Location Map

Company Royalty and Carried Interest Holdings



PHOENIX CANADA OIL COMPANY LIMITED

S.W. Paraguay, S.E. Bolivia & No. Argentina Company Property Location Map



ASSETS	1970	1969
Current:		
Cash in Banks and Deposit Receipts	$ 80,656	$102,351
Marketable Securities, at cost (Market Value – 1970 – $11,550.00)	6,535	–
Accrued Interest and Prepaid Expenses	1,915	1,122
	$ 89,106	$103,473
Deposits: (Note No. 1)	$ 3,378	$ 3,107
Associated Companies:		
Shares, at cost	$ 1,000	$ 1,000
Advances	11,279	11,279
Accounts and Notes Receivable	8,282	8,282
	$ 20,561	$ 20,561
Fixed:		
Interests in Petroleum and Natural Gas Rights, Permits and/or Leases	$ 49,312	$ 49,312
Mining Properties	115,001	115,001
Furniture and Fixtures, at cost	501	501
	$164,814	164,814
Deferred:		
Organization Expenses	$ 3,770	$ 3,770
Exploration, Development and Administration Expenses per Schedule "A"	262,473	248,118
	$266,243	$251,888
Total Assets	$544,102	$543,843

Notes

Note No. 1.

This consists of;
Deposits of $2,750.00 plus interest of $628 in connection with possible legal costs.

Note No. 2.

Included under share capital to be issued is 40,000 shares which are to be issued at a discount of 50% as consideration for the 1965 acquisition of 15 Arctic Island Permits aggregating 493,215 acres and $25,000 Government of Canada 3% Perpetuals.

Note No. 3.

Pursuant to a director's resolution dated 17th April, 1964, the Company had reserved 100,000 shares of its capital stock for the purpose of granting Management Incentive Stock Options to personnel engaged in the exploration and development of the Ecuador Concession and it granted such options to such personnel at a price of not less than 50¢ per share nor less than 20% under the market price prevailing in 1964. Such options extended over a three year period and expired 30th June, 1969. There has been an allocation of these shares and to date options on 60,000 shares at 75¢ per share have been exercised.

A previous allocation of 40,000 of these shares exercisable at 85¢ per share was subsequently cancelled by the Company. The Company has claimed Non-Performance of management responsibilities by the optionee. The optionee has instituted legal proceedings claiming the right to exercise an option on part or all of the said 40,000 shares.

Note No. 4.

No remuneration was paid during the year to directors and senior officers of the Company except that the office of John A. Murphy, director and secretary-treasurer, received $600.00 in payment for general office services.

31st December, 1970 *(with comparative figures for the previous year)*

LIABILITIES	1970	1969
Current:		
Accounts Payable and Accrued Expenses	$ 3,314	$ 3,055
Capital:		
Authorized: $5,000,000.00 divided into 5,000,000 shares of $1.00 each		
Issued — Fully Paid: 1,921,856 shares of $1.00 each	$1,921,856	$1,921,856
Less: Discount thereon	1,661,496	1,661,496
	$ 260,360	$ 260,360
100,000 shares to be issued of $1.00 each (Notes No. 2 & 3)	$ 100,000	$ 100,000
Less: Discount thereon	34,600	34,600
	$ 65,400	$ 65,400
Total Capital	$ 325,760	$ 325,760
Surplus per Schedule "B"	$ 215,028	$ 215,028
See Note No. 3 re Management Incentive Stock Option Plan.		
Total Liabilities, Capital and Surplus	$ 544,102	$ 543,843

Approved on Behalf of the Board:

S. DONALD MOORE, Director   JOHN A. MURPHY, Director

AUDITOR'S REPORT

To the Shareholders of

Phoenix Canada Oil Company Limited.

I have examined the Balance Sheet of Phoenix Canada Oil Company Limited as at 31st December, 1970, and the Statements of Deferred Exploration Development and Administration Expense, Surplus and Source and Application of Funds for the year then ended. My examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances. In my opinion these financial statements present fairly the financial position of the Company as at 31st December, 1970, and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario

19th June, 1971.

Carl B. Bell

Chartered Accountant.

PHOENIX CANADA OIL COMPANY LIMITED

Eastern Ecuador and Southern Colombia Location Map

Company Royalty and Carried Interest Holdings

Exploration, Development and Administration expenses for the year ended 31st December, 1970.

(with comparative figures for the previous year)

Schedule "A"

	1970	1969
Exploration and Development — Mining Claims		
Government Fees and Taxes	$ 180	$ 180
Engineering Fees and Expenses	(187)	489
	$(7)	$ 669
Exploration and Development — Oil and Gas Leases		
Geophysical Reports and Surveys	$ 916	$ 1,923
General Office Expense	295	2
Travel Expense	2,809	—
Telephone and Telegraph	879	—
	$ 4,899	$ 1,925
Administration and General		
General Office Expenses	$ 193	$ 681
Government Fees	85	55
Legal and Audit	683	3,200
Transfer Agent's Fees and Expenses	467	1,595
Telephone and Telegraph	586	581
Shareholders' Information	6,463	2,633
Travel Expense	1,873	259
Secretarial Services	1,998	2,408
Rent	2,957	1,479
Listing Fees and Expenses	100	100
Interest Charges	375	28
	$ 15,780	$ 13,019
Less: Interest and Dividends	6,317	6,093
	$ 9,463	$ 6,926
Total for Year	$ 14,355	$ 9,520
Add: Accumulated Expenses to end of previous year	248,118	238,598
Total Expense per Balance Sheet	$262,473	$248,118

Statement of Surplus for the year ended 31st December, 1970

(with comparative figures for the previous year)

Schedule "B"

	1970	1969
Balance at beginning of year	$215,028	$198,449
Add: Profit on sale of investments	—	16,579
Balance at end of year	$215,028	$215,028

Statement of Source and Application of funds for the year ended 31st December, 1970.

(with comparative figures for the previous year)

	1970	1969
Source of Funds		
Interest and Dividends	$ 6,317	$ 6,093
Government of Canada Bond previously on Deposit	—	939
Net Profit on sale of Investments	—	16,579
	$ 6,317	$ 23,611
Application of Funds		
Exploration, Development and Administration Expenses	$ 20,672	$ 15,613
Purchase of Shares in and Advances to Associated Companies	—	2,417
Deposit re Legal Costs	271	177
Purchase of Fixed Assets	—	650
	$ 20,943	$ 18,857
(Decrease) Increase in Working Capital	$(14,626)	$ 4,754
Working Capital at first of year	100,418	95,664
Working Capital at end of year	$ 85,792	$100,418